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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-07 FRB-03 INR-07

NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

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L-03 H-02 PRS-01 PA-01 SAJ-01 FEAE-00 INT-05 FPC-01

ERDA-05 DODE-00 OES-03 /107 W
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R 260945Z NOV 75
FM AMEMBASSY PRAGUE
TO SECSTATE WASHDC 9230
INFO USDOC WASHDC
AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY MOSCOW
AMEMBASSY SOFIA
AMEMBASSY VIENNA
AMEMBASSY WARSAW
USNATO BRUSSELS 789

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VIENNA FOR USEWTC

COMMERCE FOR BEWT/EEAD

E.O. 11652: N/A
TAGS: EALR, ECIN, ETRD, COMECON, CZ, UR
SUBJECT: SOVIET-CZECHOSLOVAK LONG-TERM TRADE AGREEMENT

REF: PRAGUE 2221

1. BEGIN SUMMARY. CZECHOSLOVAK AND SOVIET FOREIGN TRADE
MINISTERS SIGNED LONG-TERM AGREEMENT IN PRAGUE
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NOVEMBER 21 TO COVER PERIOD 1976-80. NEW AGREEMENT REPORTEDLY

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PROVIDES FOR INCREASE IN BILATERAL TRADE TURNOVER TO TOTAL OF
24 MILLION RUBLES OVER FIVE-YEAR PERIOD, UP MORE THAN FIFTY
PERCENT IN VALUE TERMS FROM ESTIMATES OF CURRENT FIVE-YEAR
PLAN BILATERAL TRADE RESULTS. DESPITE SIGNIFICANT IMPACT ON
TRADE TARGET FOR 1976-80 OF HIGHER CEMA PRICES
WHICH MAKES PLANNED INCREASE
IN SOVIET/CZECHOSLOVAK TRADE APPEAR LARGER THAN IT
IS LIKELY TO BE IN VOLUME TERMS, EMBASSY NONETHELESS CONCLUDES THAT
NEW TRADE PACT WILL LEAD TO SIGNIFICANTLY CLOSER BONDS BETWEEN
SOVIET AND CZECHOSLOVAK ECONOMIES OVER NEXT SEVERAL YEARS.
PRODUCT MIX OF ITEMS TO BE INCLUDED IN BILATERAL TRADE REMAINS
ESSENTIALLY SAME AS IN PAST, WITH SOME EXCEPTIONS. ADVANTAGES
TO CZECHOSLOVAKIA OF NEW AGREEMENT WOULD APPEAR TO BE
ASSURED SUPPLIES OF ESSENTIAL RAW MATERIALS, PRINCIPALLY CRUDE
OIL AND METALLURGICAL ORES, BUT THESE WILL BE HEAVILY OFFSET BY
INCREASED EXPORTS OF CZECHOSLOVAK MANUFACTURED GOODS TO USSR
WHICH OTHERWISE MIGHT BE SOLD IN WEST FOR HARD CURRENCY.
IMPACT OF AGREEMENT ON OUTLOOK FOR U.S. EXPORTS TO CZECHOSLOVAKIA
OF SUCH ITEMS AS MACHINE TOOLS WILL BE ADVERSE. END SUMMARY.

2. A LONG-TERM TRADE AGREEMENT COVERING PERIOD 1976-80
BETWEEN CZECHOSLOVAKIA AND SOVIET UNION WAS SIGNED IN PRAGUE
NOVEMBER 21, ACCORDING TO PRESS REPORTS OVER WEEKEND. NEW
TRADE AGREEMENT REPORTEDLY STIPULATES GLOBAL FIGURE FOR TOTAL
TURNOVER OF GOODS AND PAYMENTS BETWEEN TWO COUNTRIES DURING
COMING FIVE-YEAR PERIOD OF 24 MILLION RUBLES--UP FROM
AN ESTIMATED 14.5- 15.5 BILLION RUBLES IN TURNAROUND TRADE
DURING CURRENT FIVE-YEAR PLAN PERIOD, AND 10 BILLION RUBLES
DURING 1966-70 PLAN PERIOD. UNDER TERMS OF AGREEMENT,
CZECHOSLOVAKIA IS ASSURED CONTINUED SUPPLIES OF CRUDE OIL,
NATURAL GAS, IRON ORE, NON-FERROUS METALS (NOT SPECIFIED)
AND OTHER RAW MATERIALS. SOVIET SIDE WILL RECEIVE MACHINERY
FOR EXTRACTION OF RAW MATERIALS, A VARIETY OF OTHER TYPES
OF EQUIPMENT AND SOME KINKS OF CONSUMER GOODS WHICH WERE
NOT SPECIFIED. MUTUAL SHIPMENTS OF ENGINEERING PRODUCTS
ARE NEARLY TO DOUBLE, GROWING MORE RAPIDLY THAN OVERALL GOODS
EXCHANGE.

3. APPENDED TO BASIC LONG-TERM AGREEMENT, SIGNED BY
SOVIET AND CZECHOSLOVAK MINISTERS OF FOREIGN TRADE PATOLICHEV
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AND BARCAK, RESPECTIVELY, WERE TWO PROTOCOLS: ONE ON 1976
AGREED TRADE LEVELS AND THE OTHER ON TRANSIT OF SOVIET SHIPMENTS
OF NATURAL GAS THROUGH CZECHOSLOVAK TERRITORY TO WESTERN
EUROPE UNDER CZECHOSLOVAK-SOVIET AGREEMENT OF DECEMBER 21,
1970. NO DETAILS AT ALL WERE PROVIDED ON FIRST PROTOCOL, BUT
PRESS ACCOUNTS NOTED THAT SECOND PROTOCOL PROVIDED FOR
"CONSIDERABLE EXTENSION" OF TRANSIT GAS PIPELINE IN EXCHANGE
FOR LARGER SUPPLIES OF NATURAL GAS FROM SOVIET UNION. NO

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FIGURES ON AMOUNTS INVOLVED WERE GIVEN, HOWEVER. (IN BRIEF ANNOUNCEMENT NOVEMBER 25, TRADE UNION DAILY PRACE REPORTS ARRIVAL IN PRAGUE OF SOVIET MINISTER OF CONSTRUCTION OF ENTERPRISES OF OIL AND GAS INDUSTRY SCHERBAN FOR TALKS ON CONSTRUCTION OF SECOND BRANCH OF TRANSIT GAS PIPELINE ACROSS CZECHOSLOVAKIA AND ON CZECHOSLOVAK PORTION OF ORENBURG PIPELINE IN USSR.)

4. AMONG ITEMS OF SOVIET MANUFACTURE SINGLED OUT IN NEW LONG-TERM AGREEMENT FOR IMPORTATION BY CZECHOSLOVAKIA ARE: PRIVATE CARS, YAK-40 AIRCRAFT, MACHINE TOOLS AND ELECTRONIC COMPUTERS, AGRICULTURAL EQUIPMENT AND FARM TRACTORS, BULLDOZERS, EXCAVATORS, MINING EQUIPMENT AND OTHER MACHINERY AND EQUIPMENT. CZECHOSLOVAKIA IS TO SUPPLY USSR WITH ROLLING EQUIPMENT FOR METALLURGICAL INDUSTRY, MACHINE TOOLS, EQUIPMENT FOR LIGHT INDUSTRY AND FOOD PROCESSING, FORGING AND PRESSING EQUIPMENT, SHIPS (TYPE NOT SPECIFIED, BUT WE PRESUME THESE TO INCLUDE RIVERINE CRAFT MENTIONED REFTEL), DIESEL LOCOMOTIVES, HEAVY TRUCKS (PROBABLY 12- TO 20-TON VARIETY), INSTRUMENTS OF VARIOUS KINDS, TELECOMMUNICATIONS GEAR AND OTHER MACHINERY. (EMBASSY NOTES THAT NO MENTION WAS MADE IN ABOVE PRODUCT LISTING OF EITHER 150,000-TON TANKER SOVIETS REPORTEDLY WILL SUPPLY CZECHO-SLOVAKS IN EXCHANGE FOR VARIOUS AND SUNDRY RIVERBOATS AND

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-07 FRB-03 INR-07

NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 AGR-05

L-03 H-02 PRS-01 PA-01 SAJ-01 FEAE-00 INT-05 FPC-01

ERDA-05 DODE-00 OES-03 /107 W
---------- 038891
R 260945Z NOV 75
FM AMEMBASSY PRAGUE
TO SECSTATE WASHDC 9231
INFO USDOC WASHDC
AMEMBASSY BERLIN

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AMEMBASSY BUCHAREST
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SOME SMALLER OCEAN-GOING VESSELS -- SEE REFTEL. NOR UH
NUCLEAR POWER EQUIPMENT GIVEN SPECIAL MENTION AS ITEM OF TRADE
DURING PERIOD 1976-80 AS HAD BEEN AGREED TO IN PROTOCOL
SIGNED IN MOSCOW ON AUGUST 21 OF THIS YEAR ON
COORDINATION OF NATIONAL ECONOMIC PLANS FOR NEXT FIVE-YEAR
PERIOD. ALTHOUGH THESE OMISSIONS ARE PROBABLY AN
OVERSIGHT, IT COULD BE THAT CURRENT GLOBAL TANKER GLUT AND
PROBLEMS ALL INDUSTRIALLY DEVELOPED COUNTRIES ARE HAVING IN
GETTING NUCLEAR POWER PROJECTS OFF THE GROUND HAS CAUSED BOTH
SIDES TO RE-EVALUATE THEIR POSITITXNS ON THESE PROJECTS.)

5. COMMENT: IT IS DIFFICULT TO COMMENT WITH ANY PRECISION
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ON WHAT THIS NEW TRADE AGREEMENT WITH SOVIETS WILL MEAN FOR
CZECHOSLOVAK ECONOMY AND TRADE RELATIONS WITH OTHER CEMA
PARTNERS AND WITH WEST. WE DO KNOW, HOWEVER, THAT RAW
MATERIALS SHIPMENTS TAKEN TOGETHER COMPRISE PREPONDERANT
SHARE OF SOVIET EXPORTS TO CZECHOSLOVAKIA AND THAT PRICES FOR
MOST, IF NOT ALL, OF THESE COMMODITIES HAS RISEN DRAMATICALLY
DURING PAST YEAR. THUS, A SIZEABLE, IF UNUVHNTIFIABLE, SLICE
OF PROJECTED 24 BILLION RUBLE CZECHOELOVAK/SOVIET TRADE TURNOVER
DURING NEXT FIVE-YEAR PLAN PERIOD CAN BE ATTRIBUTED TO INTRA-
CEMA PRICE INFLATION. ONE WIDELY ACK053$, THOUGH
DIFFICULT TO PROVE, THEORY IS THAT CZECHOSLMJAKIA ALONG WITH
OTHER EASTERN EUROPEAN COUNTRIES, HAS SUFFERED A SERIOUS
EROSION OF ITS TERMS OF TRADE WITH SOVIET UNION BECAUSE
PRICE INCREASES NEGOTIATED FOR CZECHOSLOVAK EXPORTS OF
MANUFACTURED GOODS TO USSR HAVE NOT BEEN AS STEEP OR
DRAMATIC AS HAVE THOSE FOR IMPORTS OF SOVIET RAW MATERIALS AND FUELS.
CZECHOSLOVAK FOREIGN TRADE STATISTICS FOR FIRST SEVEN MONTHS
OF 1975 (LATEST AVAILABLE) PROVIDE SOME SUPPORT FOR THIS THESIS
SHOWING THAT FOR FIRST TIME IN FOUR YEARS SOVIETS ARE RUNNING
STRONGLY POSITIVE TRADE BALANCE WITH CZECHOSLOVAKIA. ACCORDING TO
CZECHOSLOVAK DATA, IMPORTS FROM USSR THIS YEAR ARE
JUST UNDER 40 PERCENT HIGHER THAN THEY WERE DURING SAME
PERIOD OF 1964, WHILE CZECHOSLOVAK EXPORTS TO SOVIET UNION
HAVE ONLY RISEN BY 23 PERCENT IN COMPARISON, CLEARLY REFLECTING
DISPROPORTION IN PRICE INCREASES EFFECTED ON BOTH SIDES.

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MOREOVER, TRADE WITH SOVIETS IN FIRST SEVEN MONTHS ACCOUNTED FOR 32.8 PERCENT OF TOTAL CZECHOSLOVAK TRADE WITH WORLD, UP FROM 28 PERCENT IN 1974 AND 30.8 PERCENT IN 1973. FROM THESE PARALLEL TRENDS, WE CONCLUDE THAT NEW LONG-TERM TRADE AGREEMENT WILL WORK TO BIND CZECHOSLOVAK ECONOMY CLOSER TO THAT OF SOVIET UNION, AND MAKE EVEN MORE DIFFICULT TASK LOOMING BEFORE CZECHOSLOVAK GOVERNMENT OF MODERNIZING AND RATIONALIZING NATION'S INDUSTRIAL BASE. PROMINENCE GIVEN TO PLANNED INCREASE IN EXCHANGE OF ENGINEERING PRODUCTS WOULD SEEM PARTICULARLY TO TIE HANDS OF CZECHOSLOVAKS AND DEPRIVE THEM FURTHER OF VITAL ACCESS TO HARD CURRENCY MARKETS IN WEST.

6. AS A FOOTNOTE TO ABOVE, AND PROBABLE HARGINGER OF THINGS TO COME ELSEWHERE IN CZECHOSLOVAK FOREIGN TRADE, WE CITE PRESS REPORT OF NOVEMBER 19 IN WHICH IT IS STATED THAT DURING UPCOMING FIVE-YEAR PERIOD IMPORTS OF MACHINE TOOLS FROM
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OTHER CEMA COUNTRIES ARE TO RISE 2.3 TIMES FROM BASE IN 1974 OF 7,000 IMPORTED MACHINE TOOLS, ONE-THIRD OF WHICH WERE REPORTE
ILY PURCHASED FROM USSR. LATER PRESS ACCOUNT (NOVEMBER 25) SAID THAT MORE THAN 8,000 MACHINE TOOLS WOULD BE IMPORTED FROM ALL SOCIALIST PARTNERS IN 1975. UNTIL RECENTLY, MACHINE TOOLS HAD BEEN AN AREA IN WHICH EMBASSY HAD HOPED TO SEE U.S. INDUSTRY MAKE SOME HEADWAY IN COMING YEARS, BUT PROSPECTS FOR THIS HAVE NOW DECIDELY DIMMED.
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